

Decision 04-02-029

February 11, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison
Company (U338-E) for an Order Under
Section 701 of the Public Utilities Code
Granting Southern California Edison Company
Authorization to Recover TRRRMA Costs.

Application 01-02-030
(Filed February 28, 2001)

ORDER DENYING REHEARING OF DECISION (D.) 03-08-062

In this decision, we dispose of the application filed by the Office of Ratepayer Advocates (“ORA”) for rehearing of Commission Decision (D.) 03-08-062 (“Decision”). D.03-08-062 authorized Southern California Edison Company (“Edison”) to recover, as part of its distribution rates, certain Administrative and General costs booked into its Transmission Revenue Requirement Reclassification Memorandum Account (“TRRRMA”).

We have carefully considered the arguments presented by ORA and are of the opinion that no grounds for rehearing have been demonstrated.

I. DISCUSSION

In 1997, as part of electric restructuring, the Commission issued D.97-08-056, which “unbundled” the generation, transmission and distribution revenue requirement of the utilities. (See *Re Pacific Gas and Electric Company* [D.97-08-056] (1997) 74 Cal.P.U.C.2d 1.) It was anticipated that, as California moved into a competitive electric market, generation rates would eventually be set by the market. Transmission rates would be set by the Federal Energy Regulatory

Commission (“FERC”), and retail distribution rates would be set by the Commission.

In D.97-08-056, the Commission adopted Edison’s proposal to allocate \$211 million of its nongeneration revenue requirement to transmission. The balance, after certain adjustments, was allocated to distribution. (D.97-08-056, *supra*, 74 Cal.P.U.C.2d at pp. 19, 58.) The Commission further noted that these allocations were not final, as the FERC had not yet determined the transmission revenue requirements for the utilities. Thus, to the extent that the FERC declined to include any costs as not transmission-related, the utilities would have an opportunity to include these costs in their distribution rates, provided they demonstrated that the costs “are both reasonable and associated with distribution activities.” (*Id.* at p. 19.)

On March 20, 1998, Edison filed an advice letter requesting permission to establish the TRRRMA. The purpose of this account was to track the costs Edison had requested for recovery in transmission rates from FERC, which FERC may not allow to be included in transmission rates. Any amounts tracked in this account would then be considered in a future Commission proceeding to determine whether the disallowed costs should be included in distribution rates. The Commission approved Edison’s advice letter in Resolution E-3544. (Resolution E-3544 (1998) 1998 Cal. PUC LEXIS 1047.) However, it limited the costs that could be booked into the TRRRMA to those that were: (1) categorized by FERC to be non-transmission and (2) not disallowed by FERC or the Commission. (Resolution E-3544 (1998) 1998 Cal. PUC LEXIS 1047 at *8.)

On July 26, 2000, FERC issued its decision on Edison’s retail transmission rates for 2000. (Re Southern California Edison Company (“Opinion 445”) (2000) 92 FERC ¶ 61,070.) The opinion rejected Edison’s multi-factor methodology for allocating Administrative and General (“A&G”) and General and Indirect plant (“G&I”) expenses, electing instead to use its traditional labor cost

ratio allocation methodology. (*Id* at p. 61,267.) As a result of adopting a different allocation methodology, approximately \$24 million of Edison's A&G and G&I expenses would be ineligible for inclusion in transmission rates set by FERC each year. Pursuant to Resolution E-3544, this amount was booked into the TRRRMA account.

Edison filed an application with the Commission to recover in its distribution rates the A&G and G&I costs that the FERC had declined to include as transmission-related costs as a result of the different allocation methodologies. (*Application of Southern California Edison Company for a Commission Order Authorizing Recovery of Transmission Revenue Requirement Reclassification Memorandum Account Costs* ("Edison Application") [A.01-02-030], filed February 28, 2001.) In its application, Edison noted that the A&G and G&I costs had been found reasonable for recovery by the Commission in Edison's 1995 GRC revenue requirement and that the sole reason FERC had declined to include these costs in transmission rates was due to the different allocation methodologies. (Edison Application, p. 8.) Therefore, it requested that the Commission authorize it to transfer these costs from the TRRRMA to the Transition Cost Balancing Account ("TCBA") and to recover them through an increase in distribution rates. (Edison Application, p. 34.)

The Office of Ratepayer Advocates ("ORA") filed a protest to Edison's application, asserting that recovery of costs under Resolution E-3544 is not automatic, but requires Edison to show that the costs were reasonable and distribution-related. (*Protest of the Office of Ratepayer Advocates*, April 5, 2001, p. 6.) ORA contended that Edison had failed to make the requisite showing pursuant to Resolution E-3544, and thus, was not eligible to recover the costs not included in transmission-rates.

On September 3, 2003, the Commission issued Decision (D.) 03-08-062 ("Decision"), the subject of the instant application for rehearing. The

Decision determined that Edison had met its burden of proof, and that the costs tracked in the TRRRMA should be considered distribution-related and reasonable. (D.03-08-062, pp. 20-21.) Therefore, it authorized recovery of these costs through Edison's Electric Distribution Revenue Adjustment Balancing Account ("EDRABA"). (D.03-08-062, p. 25.)

On September 22, ORA filed an application for rehearing of the Decision. Edison filed a timely response opposing ORA's rehearing application. ORA's rehearing application challenges the Commission's determination that Edison had met the burden of proof required in order to recover the A&G and G&I expenses considered not transmission-related by the FERC in its distribution rates.

ORA first argues that the Decision misapplied Resolution E-3544 by permitting Edison to recover the disallowed costs in distribution rates without first determining that the costs were in fact distribution-related. (Rhg. App., p. 3) We disagree. Based on the administrative record before us, we determined that Edison had met the requirements set forth in D.97-08-056 and Resolution E-3544. D.97-08-056 provides utilities the opportunity to recover costs found by the FERC to be not transmission-related upon a showing that the costs are reasonable and distribution-related. (D.97-08-056, *supra*, 74 Cal.P.U.C.2d at p. 19.) Resolution E-3544 permits costs to be considered for recovery if they are (1) categorized by FERC to be non-transmission and (2) not disallowed by FERC or the Commission. (Resolution E-3544 (1998) 1998 Cal. PUC LEXIS 1047 at *8.)

As Edison explained, the A&G and G&I expenses at issue are not directly attributable to any one function, and thus, were allocated based on a formula. (Edison Application, p. 16; *Southern California Edison Company's Reply to Protest of Office of Ratepayer Advocates*, filed April 16, 2001, p. 4.) However, due to the different allocation formulas used by the Commission and the FERC, the FERC determined that a certain portion of expenses determined to be transmission-related under the Commission's adopted allocation methodology was

not transmission-related under the FERC's allocation methodology. (Edison Application, p. 20.) Based on this evidence, we properly concluded that the FERC had not disallowed these costs, but rather had declined to include them in transmission rates because they were not transmission-related. Thus, the costs met the requirements of Resolution E-3544 and could be included in the TRRRMA.

We further determined, based on the proof presented in Edison's Application, that these costs were reasonable. (D.03-08-062, p. 23.) However, because the A&G and G&I costs were indirect and common costs that could not be attributed to any one function, we concluded that it would be unlikely that Edison could demonstrate that the costs were directly related to distribution. (D.03-08-062, p. 24.) Edison had argued that that the costs had been found by the Commission to be non-generation and that the FERC had determined that they were not transmission-related solely due to differences in allocation methodologies. (*Southern California Edison Company's Reply to Protest of Office of Ratepayer Advocates*, filed April 16, 2001, p. 4.) Since the costs were not generation or transmission costs, Edison argued that the costs had to be considered distribution. We agreed. Consequently, although Edison could not show that these costs were directly related to distribution, we concluded that Edison had made a sufficient showing and should be allowed to recover these costs in its distribution rates. (D.03-08-062, pp. 21, 29 (FOF 25).) The fact that ORA disagrees with our conclusion and believes that a stronger showing was necessary does not demonstrate legal error. Accordingly, there are no grounds for granting rehearing on this issue.

ORA next maintains that Edison could have provided evidence to support its Application but failed to do so. (Rhg. App., p. 3.) These arguments are unfounded. ORA's assertions are premised on the fact that PG&E had allocated its A&G expenses based on an "Efforts Study" as part of its current test year 2003 General Rate Case. (Rhg. App., p. 3.) It believes that Edison could have

performed a similar study to determine whether the A&G and G&I expenses deemed not transmission-related by the FERC were in fact distribution-related. However, Edison's multi-factor allocation methodology was the result of Edison's own detailed cost studies and ORA fails to explain why it would be appropriate to now use a different allocation methodology to determine Edison's distribution-related costs. Furthermore, ORA's argument ignores Edison's explanation why, based on the nature of the expenses at issue, it would not be possible to directly attribute any specific A&G and G&I costs to distribution. (D.03-08-062, p. 24, fn.10 and accompanying text.) As discussed previously, we determined, based on the evidence in the record, that Edison had met the burden of proof set forth in D.97-08-056 and Resolution E-3544. Again, the fact that ORA believes that Edison could have made a stronger showing through the use of a different cost allocation study does not demonstrate legal error.

Finally, ORA maintains that by adopting the FERC's allocation methodology for distribution costs, we have effectively abandoned our authority over distribution-related costs. (Rhg. App., p. 4.) This argument is without merit. Our decision to allow recovery of these expenses was not due to an adoption of the FERC's allocation methodology. Rather, it was based on our determination that Edison had made a sufficient showing that the costs were reasonable and distribution-related. Determination of which costs should be recovered in distribution rates is both within our jurisdiction and our discretion. The mere fact that in this instance we have allowed recovery of all costs determined by the FERC to be not transmission-related does not demonstrate any ceding of authority over distribution rates.

In sum, we find that ORA has failed to demonstrate grounds for granting rehearing of Commission Decision (D.) 03-08-062. Accordingly, we deny ORA's application for rehearing.

IT IS ORDERED that:

1. Rehearing of D.03-08-062 is denied.
2. This proceeding is closed.

This order is effective today.

Dated February 11, 2004 at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I dissent.

/s/ LORETTA M. LYNCH
Commissioner